

Message Text

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46

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 RSR-01

/146 W

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R 290829 Z JUN 73

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7416

TREAS DEPT WASHDC

INFO AMEMBASSY LONDON

AMEMBASSY SINGAPORE

UNCLAS HONG KONG 6566

FROM TREASURY BARNARD FOR TREASURY/ OASIA

E. O. 11652: N/ A

TAGS: EFIN

SUBJECT: FOREIGN EXCHANGE: US DOLLAR WEAK IN HONG KONG

1. US DOLLAR CLOSED IN HK THIS WEEK AT HK\$5.025 (TT BUYING)
WHICH 1.18 PERCENT BELOW 5.085 PARITY AND 3.09 PERCENT BELOW
5.185 RATE OF EARLY MAY. WEAKNESS ATTRIBUTED TO MOVE OUT OF ASIAN
(US) DOLLAR DEPOSITS IN SINGAPORE FOR SAME REASONS WHICH CAUSING
DECLINE IN EURODOLLAR PRICES.

2. PARADOX OF US DOLLAR WEAKNESS IN COLONY IS THAT IT HAS BEEN
REGARDED AS UNDERVALUED AGAINST HK DOLLAR EVER SINCE MID- FEBRUARY
AND UNTIL FIRST WEEK IN MAY HAD BEEN MOVING STEADILY UPWARD.
EXPLANATION SEEMS TO BE THAT NEW PATTERN OF EXCHANGE TRADING
EMERGING
IN HK. TRADERS REPORT THAT ALTHOUGH HONG KONG DOLLAR HAS LONG BEEN
POPULAR MEDIUM FOR THOSE IN SE ASIA WHO WISH TO LAUNDER BLACK
MONEY INTO WHITE REGARDLESS OF EXCHANGE RATE CONSIDREATIONS, IT
NOW BEING USED INCREASINGLY FOR SPECULATIVE AND HEDGING PURPOSES,
THE ATTRACTIONS BEING THE STRENGTH SHOWN IN PAST TWO YEARS OF
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MONETARY TURBULENCE AND THE FREEDOM FROM RESTRICTIONS THAT MAKE
MOVES INTO OTHER STRONG CURRENCIES INCREASINGLY MORE DIFFICULT.

3. TRADERS DOUBT WEAKNESS OF US DOLLAR WILL CONTINUE LONG IN HK
EXCHANGE MARKET AND PROBABLY NOT IN EUROPE EITHER. THOSE WHO READ
ENGLISH LANGUAGE PAPERS TODAY FOUND STATEMENTS BY FRB CHAIRMAN
BURNS
SUGGESTING THAT CENTRAL BANKS MAY BE ON POINT OF INTERVENTION. THIS,
IT IS SAID, SHOULD STIMULATE PRIVATE BUYING OF DOLLARS BEFORE OFFICIAL

SUPPORT BIDS PRICE UP.

4. WHILE OTHERS MAY BE SELLING US DOLLARS THE BANK OF CHINA HAS
BEEN TAKING ALL US BANK NOTES OFFERED IN HONG KONG, WITH PARTICULAR
DEMAND FOR DENOMINATIONS OF 50 AND 100. LAST PRICE PAID WAS HK\$5.0375

OSBORN

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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

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30 JUN 2005

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To: EB
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SECSTATE WASHDC
SINGAPORE
TREAS DEPT WASHDC
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